Questions: Balance day adjustments for prepaid expenses, accrued expenses and depreciation of non-current assets

Question 1 (8 marks)

a. Calculate the expense incurred for the year ending 30 June 2023 for each of the following:

- Advertising paid was $4 000. At 30 June 2023 Advertising prepaid was $1 000 plus GST. No Advertising was prepaid at 1 July 2022.
- Wages paid was $20 000. At 30 June 2023 Wages owing were $500. There were no Wages owing 1 July 2022.
- Insurance paid was $1 000 plus GST. Insurance prepaid 1 July 2022 was $400. Insurance prepaid 30 June 2023 was $300.
- Rates paid were $900 plus GST. Rates prepaid 1 July 2022 were $100. Rates owing 30 June 2023 were $200.

4 marks

b. Calculate the cash paid for the year ending 30 June 2023 for each of the following expenses:

- Wages Expense was $25 000. At 30 June 2023 Wages owing were $500. There were no Wages owing at 1 July 2022.
- All Advertising is paid in advance. Advertising Expense was $7 000 plus GST. At 30 June 2023 Prepaid Advertising was $1 000 plus GST. There was no Prepaid Advertising at 1 July 2022.
- Interest Expense was $12 000. Interest owing 1 July 2022 was $2 000. Interest owing 30 June 2023 is $300.
- Insurance Expense was $1 500 plus GST. Prepaid Insurance 1 July 2022 was $460 plus GST. Prepaid Insurance **for** 30 June 2023 is $200 plus GST.

4 marks

Question 2 (7 marks)

On 30 June 2023, accrued electricity was $400 plus GST (Memo 14).

a. Prepare the balance day adjustment required on 30 June 2023 in the General Journal.

A narration is required. 3 marks

b. Explain the effect of this balance day adjustment on the accounting equation. 2 marks

c. On 15 July 2023, the business paid $600 plus GST for electricity, which included the amount owing at 30 June 2023 (Chq. 28).

Record Cheque 28 in the General Journal. 2 marks

Question 3 (5 marks)

Interest on a loan of $50 000 is payable quarterly with the next payment due on 1 February 2023. The interest rate is 6% per annum.

A balance day adjustment was recorded at 31 December 2022 for interest owing.

A cheque was written to XYZ Finance on 1 February 2023 for the quarterly interest and the repayment of $1 200 loan principal (Chq. 235).

a. Record the payment on the 1 February 2023 in the General Journal. 3 marks

b. Explain the recording of Cheque 235. 2 marks

Unit 4 Area of Study 1: Extension of recording and reporting

Topic 1: Balance day adjustments for prepaid expenses, accrued expenses and depreciation of non-current assets

Question 1 (8 marks)

a.

	Expense
Advertising Expense	3 000
Wages Expense	20 500
Insurance Expense	1 100
Rates Expense	1 200

4 marks

b.

	Amount Paid
Wages	24 500
Advertising	8 000
Interest	13 700
Insurance	1 240

4 marks

Question 2 (7 marks)

a.

General Journal

Date 2023	Details	Debit	Credit
30 Jun.	Electricity	400	
	Accrued Electricity Expense		400
	Adjust for electricity owing (Memo 14)		

3 marks

b. The liabilities will increase by $400 and the owner's equity will decrease by $400. There will be no effect on assets. 2 marks

c.

General Journal

Date 2023	Details	Debit	Credit
15 Jul.	Accrued Electricity Expense	400	
	Electricity	200	
	GST Clearing	60	
	Bank		660

2 marks

Question 3 (5 marks)

a.

General Journal

Date 2023	Details	Debit	Credit
1 Feb.	Loan – XYZ Finance	1 200	
	Accrued Interest Expense	500	
	Interest Expense	250	
	Bank		1 950

3 marks

Question 5 (6 marks)

a. *Any two of:*

- It provides more information to the users of the final reports.
- It allows separate recording in the Balance Sheet of the different assets.
- The assets are depreciated at different rates and nature of use, disposal values, revenue patterns and life spans.
- It allows allocation of expenses to a functional area of responsibility.

2 marks

b. **Explanation:** The depreciation method chosen for each asset should match the revenue-earning pattern of the asset. The fittings will earn revenue evenly over their useful life so the straight-line method should be used. The computer is more efficient when new and contributes more to the earning of revenue in the beginning, so the reducing balance method should be used because it allocates more expense at the start of the asset's life and less as it ages. 2 marks

c. **Explanation:** Recogising depreciation is important to the composition of the business' Income Statement and Balance Sheet. Should the accountant take notice of the owner on this matter, the business will not be giving users a true indication of the business' performance and this may in turn lead users to make misinformed decisions. While it is true that it is an estimated figure that results in both reports, its inclusion does better reflect the performance of the business than if it was excluded. 2 marks

Question 6 (13 marks)

a.

Working space

End of year 1: $42\ 000 \times 30\% = \frac{12\ 600}{2} = \$6\ 300$

End of year 2: $42\ 000 - 6\ 300 = 35\ 700 \times 30\% = \$10\ 710$

End of year 3: $35\ 700 - 10\ 710 = 24\ 990 \times 30\% = \$7\ 500$

3 marks

b. **Description:** Net profit will be lower under the reducing balance method in the earlier years of the life of the delivery van because depreciation expense will be higher in its earlier life. This is because the reducing balance method allocates more depreciation expense at the start of the asset's life when it is newer and can contribute more to revenue. In the later years of the asset's life, profit will be higher because the reducing balance method will allocate a lower amount than the straight-line method. 3 marks

c.

General Journal

Date 2023	Details	Debit	Credit
30 Jun.	Disposal of Delivery Van	42 000	
	Delivery Van		42 000
	Accumulated Depreciation – Delivery Van	25 524	
	Disposal of Delivery Van		25 524
	Bank	20 000	
	Disposal of Delivery Van		20 000

7 marks

Question 7 (5 marks)

a.

Working space

$\frac{\$150\ 000 - \$25\ 000}{5} = \$25\ 000$ per annum

Depreciation is $25 000 per year.
It is two years and three months since the machine was purchased.
Accumulated depreciation = $25 000 + $25 000 + $6 250 = $56 250
Carrying value = $150 000 – $56 250 = $93 750

2 marks

b.

Working space

proceeds from sale = $93 750 – $10 000 = $83 750

1 mark